

VZCZCXRO3929
PP RUEHBI RUEHCI RUEHLH
DE RUEHLM #0044/01 0211151
ZNY CCCCC ZZH
P 211151Z JAN 10
FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC PRIORITY 1137
INFO RUEHKA/AMEMBASSY DHAKA PRIORITY 2275
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 9297
RUEHKT/AMEMBASSY KATHMANDU PRIORITY 7552
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 3712
RUEHCG/AMCONSUL CHENNAI PRIORITY 9860
RUEHKP/AMCONSUL KARACHI PRIORITY 2647
RUEHCI/AMCONSUL KOLKATA PRIORITY 0507
RUEHLH/AMCONSUL LAHORE PRIORITY 0133
RUEHBI/AMCONSUL MUMBAI PRIORITY 7147
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 COLOMBO 000044

SIPDIS

E.O. 12958: DECL: 01/21/2020

TAGS: [CE](#) [ECON](#) [PGOV](#) [SOCI](#)

SUBJECT: GDP GROWTH IS NOT ENOUGH AS POPULAR ECONOMIC
DISCONTENT IMPERILS PRESIDENT'S REELECTION

REF: COLOMBO 2

Classified By: DCM Valerie Fowler for Reasons 1.4 (B, D)

¶1. (C) Summary. Sri Lanka has enjoyed strong economic growth in the last four years, with rising per capita income, falling poverty rates, and a booming stock market in 2009. Despite glowing macro-economic statistics, opposition candidate General Fonseka appears to be gaining traction with his criticism of the rising cost of living and growing government waste and corruption. Inflation rates have been high during President Rajapaksa's four years in office, especially food and utilities, and high inflation appears to have eroded real wage rates. Our contacts are also frustrated that they have not received the expected economic peace dividend. Finally, our contacts perceive that corruption has mushroomed during the Rajapaksa years, which fuels great dissatisfaction. End Summary.

Inflation Apparently Erodes Away Rajapaksa Economic Achievements

¶2. (U) According to macro-economic statistics, President Rajapaksa has a briefcase full of accomplishments. President Rajapaksa took office in November 2005. The average annual GDP growth jumped from 5.1% from 2002-2004 to 6.6% from 2005-2008, and even with a global recession, Sri Lanka expects 3.5% GDP growth in 2009. The most recent statistics show that poverty rates fell from 27.7% in 2002 to 15.2% in 2006-2007. Moreover, the Sri Lanka stock exchange boomed to record highs in late 2009. World Bank economist Claus Astrup thought that the Sri Lanka GDP and poverty statistics accurately portrayed the general trends, although income inequality may have increased during this period.

¶3. (SBU) Inflation has been high during the Rajapaksa years, particularly in utilities and basic foodstuffs. The Colombo Consumer Price Index (CCPI) increased by a total of 59% between December 2005 and November 2009, although inflation fell sharply in 2009. Increases in utility and food prices have often exceeded general inflation. For example, from December 2005 to December 2009, electricity prices went up 111%, LPG cooking gas rose by 95%, gasoline (63%), Kerosene (103%), while diesel prices rose by a relatively moderate 40%. As to basic foodstuffs, prices rose from June 2007 to December 2009 very quickly for some items, such as white rice (81%), wheat flour (125%), lentils (117%), onions (167%); prices rose more moderately for others, including bread (48%), sugar (37%), coconut (52%), full cream

milk powder (38%), and chicken (33%); and prices declined by 1% for potatoes. These price increases are likely to hurt the poor most, since they spend a higher percentage of their income on essentials. (Note. The Central Government does not collect inflation statistics outside of Colombo, but with trade on an island it is likely that prices throughout Sri Lanka follow the same pattern. End Note.) Some inflation increases were due to world wide commodity price increases, such as oil, beyond the GSL control.

¶4. (U) According to Central Bank statistics, Sri Lanka has a total work force of 7.6 million workers, of whom 1.2 million are government employees, 3.3 million have private sector jobs, 200,000 are employers, 2.1 million are self employed, and 800,000 are unpaid family members. Moreover, 2.9 million workers are employed in the formal sector (government and private) and 4.6 million are employed in informal jobs.

¶5. (SBU) Although the government statistics are incomplete, it appears that after inflation government employees and informal workers lost purchasing power, while the picture for private sector employees is mixed. Central Bank statistics show that government workers lost 8% of their real earning power from 2006 to 2008. Government workers received large nominal salary increases in 2007-2008, but none in 2009 due to costs at the end of the war, so although 2009 inflation is low, these workers have lost even more purchasing power. Government employees are paid a minimum of 11,000 Rs per month (approximately \$97 USD), while private sector minimum wages are less, at 6,750 Rs per month (\$60

COLOMBO 00000044 002 OF 003

USD), so they would be hurt more by inflation. Central Bank figures do not include a wage survey of all private sector employees, but the minimum wage rates in the private sector increased by 7% from 2006 to 2008. Our contacts doubt that real private sector wage rates actually increased during 2006-2008, and anecdotally private wages declined in 2009 due to the pressure of job losses arising from the global recession. Wages in the informal sector, which covers 69% of the workers, have declined according to Central Bank statistics. Real wages in the construction industry fell 5-7% from 2006 to 2008; in agriculture, tea workers lost ground (-8% for men and -10% for women), while male rice paddy farmers received 1.7% more in real wages and female paddy farmers lost 6.6%. Our contacts believe that informal workers in urban areas also lost purchasing power.

¶6. (SBU) President Rajapaksa has tried to address the cost of living issue in the campaign. The GSL has controlled the prices of several key commodities such as gasoline and bread. President Rajapaksa has also promised a 2,500 Rs (\$22 USD) salary increase per month to government workers, starting in April after the election. This is less than the 10,000 Rs (\$88 USD) salary increase promised by opposition candidate Fonseka (see reftel). There has been a press report that the GSL ordered factories operating under Sri Lanka's Board of Investment to also provide a 2,500 Rs (\$22 USD) monthly salary increase, but the employers association has denied that they have received any such instruction. President Rajapaksa boasts that he has hired 300,000 new government employees during his term, thus directly benefiting these new employees.

Where's the Peace Dividend?

¶7. (SBU) Many Sri Lankans expected an immediate peace dividend of personal economic prosperity following the end of the war, which has not occurred. Various business contacts commented to Econoff that they were willing to bear economic burdens to win the war against the LTTE, but now they expect better economic times. The war ended during a severe global economic recession, which has greatly reduced foreign investment, but many businessmen are unhappy that the GSL has not reduced bureaucratic red tape, corruption or import

duties to encourage the private sector. Fairly or unfairly, our contacts expected more of a peace dividend after the war.

Corruption Reaches New Levels

18. (C) Opposition candidate Fonseka has been running hard on the theme that government waste and corruption have increased the cost of living (see reftel). For example, in a full page advertisement, Fonseka attacks the large Rajapaksa cabinet as an example of government waste. 'Sri Lanka has 132 ministers and deputy ministers to govern a country of 20 million people. Just for the upkeep of the 132 (member cabinet), the people of our country have to incur at least Rs 4 billion (\$35 million USD) a year in taxes. In contrast, the budget allocation for the entire Samurdhi Programme which provides welfare to some 9 million of this nation's poorest families is only Rs 10 billion (\$88 million). To meet the runaway cost of maintaining the present cabinet, the government imposes numerous taxes. Even essential food such as milk powder, rice, sugar, onions and dhal are taxed making the common man's burden almost impossible to bear.' (Note. Post has not verified this election claim. End Note.) There are similar allegations that there are over 300 members of the Rajapaksa family are on the government payroll. Business contacts have also told post that large infrastructure contracts are heavily padded to provide kickbacks, and an NGO reported that a Minister complained he had to kick back all of his bribes to the Rajapaksas. Several respected contacts have said that corruption has reached new heights under the Rajapaksa Administration, and Fonseka's anti corruption campaign appears to be gaining traction.

19. (C) Comment. Sri Lanka's Presidential race is hard to measure because there are no impartial and reliable polls. Sri Lanka's solid macro-economic statistics, however, apparently have not translated into an election bonanza for President Rajapaksa. Post contacts expect the January 26

COLOMBO 00000044 003 OF 003

Presidential election to be close, and economic issues appear to be weighing down President Rajapaksa. Although candidate Fonseka has not presented detailed economic plans, many people seem to want an economic change. End Comment.

BUTENIS